1944

International Shoe Company

1509 WASHINGTON AVENUE

St. Louis 3, Mo.

FINANCIAL STATEMENT

NOVEMBER 30, 1944

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NOVEMBER 30, 1944

January 5, 1945

To Our Stockholders:

Financial report showing the results of the International Shoe Company's operations for the fiscal year ended November 30, 1944 is submitted herewith.

Net profit for the year was $5,969,125 which represents an earning of $1.78 per share of common stock. This compares with $6,737,648 or $2.01 per share last year. Federal taxes on income (net) charged to profit and loss account were $7,250,710 in 1944 against $11,953,086 in 1943.

Net sales to customers were $156,642,087 compared with $142,841,095 last year.

The Company's own supply plants (tanneries, cotton mill, rubber plant, etc.) produced during the year for its own use shoe materials and supplies to the value of $70,492,113 which combined with our sales made an aggregate of $227,134,200 business transacted.

Our factories produced 53,920,568 pairs of shoes, against 50,133,401 last year.

1944 HIGH LIGHTS

Shortages of materials and manpower, along with a nation-wide demand for leather shoes far in excess of production, carried over into the year 1944, with the manpower situation becoming increasingly stringent as the year progressed.

Government requirements for shoes and leather needed in the war effort again had first call on the industry in 1944, and your Company continued to play a leading part in supplying these needs.

Production of civilian leather shoes showed a sharp decrease. A large output of non-rationed shoes of materials other than leather developed in response to the heavy demand for women's shoes. In the case of children's shoes, however, a definite shortage became evident during the year, and steps were taken by the Government to make more materials available for these shoes. As America's largest manufacturer of children's shoes, the Company responded to this need by producing substantially more of these shoes as soon as materials were available.

During the year the War Labor Board approved increased wage rates in the shoe industry, which, combined with lessened efficiency of available workers, have considerably increased the labor cost of producing shoes.

Material costs also have risen in a number of ways. The short supply of the usual standard materials has resulted in higher costs. Several important substitute materials adopted under the Company's standards of quality were purchased or fabricated at a cost considerably in excess of the cost of the original materials.

Thus, with costs rising under the OPA's established ceiling prices on finished product, the Company's margins are necessarily narrowing.

PRODUCTION AND SHIPMENTS

The dollar value of the Company's shipments was the greatest in its history, net sales representing an increase of 9.6% over the previous year and

an increase of 8.5% over the previous high established in 1942. The increase was due entirely to expansion of production for the Government, shipments of civilian shoes being 3.5% lower.

A considerable part of the increase in Government business was made up of reconstructed worn Army service shoes, the production of which virtually doubled that of the previous year. The Company's Government business amounted to 36% of its dollar volume and 27% of its production in pairs. Since Pearl Harbor the Company has supplied the Government with over 33,000,000 pairs of shoes.

WORKING CAPITAL

After applying Government tax notes in an amount equal to the reserve for Federal taxes on income, the Company's current assets of $72,020,135 are nine times its current liabilities of $8,028,204.

Increases in accounts receivable and inventories roughly account for the decrease in cash and unapplied Government securities. Accounts receivable reflect the increase in the Company's volume in the closing months of the year. Despite further reduction in finished shoes, total inventories show a slight increase, representing partial replacement of the reduction in quantities which took place in the previous year.

LAST-IN, FIRST-OUT INVENTORIES

During the year the Company replaced substantial quantities of "last-in, first-out" inventories which were involuntarily liquidated in prior years because of wartime conditions. By an election under Section 22(d)(6) of the Internal Revenue Code, the Company has protected its position with respect to maintaining these inventories at the original low-cost "last-in, first-out" basis.

When replacement of such inventories is accomplished, the taxes for the year of liquidation are adjusted to reflect the difference between the actual cost of replacement and the "last-in, first-out" basic cost.

The "last-in, first-out" method has proved quite advantageous to the Company since it adoption.

INCOME AND EXCESS PROFITS TAXES

The Company's provision for income and excess profits taxes was determined under the Revenue Act of 1943.

The Company's excess profits credit is unchanged—excess profits taxes still apply only after the Company's earnings amount to $1.55 per share, which means $2.59 per share before deducting 40% for normal and surtax.

The net charge to this year's profits for Federal taxes on income, as reflected in the Statement of Profit and Loss, consists of this year's income and excess profits taxes, less refunds due on account of replaced "last-in, first-out" inventories involuntarily liquidated in prior years, with adjustments for post-war refund.

WAGES

After negotiations with interested labor organizations extending over the past year, the Company, prior to the close of the fiscal year, consummated a

number of wage agreements covering employment in most of its manufacturing plants. These agreements provide an increase in minimum rates for hourly paid employees, with tapering increases applying to the higher rates and with comparable adjustments of piece work rates.

In addition, under these agreements, the vacation plan established in 1942, calling for one week's vacation after one year of service, is increased so that hereafter employees with five years of service receive a vacation of two weeks with pay.

These wage agreements, affecting more than 26,000 of the Company's employees, provide for annual pay increases exceeding $2,500,000. They also provide for pay retroactive to various effective dates in an amount approximating $1,500,000.

MANPOWER

The shortage of manpower generally has become increasingly severe throughout the year. Despite this, the Company has been able to close the year with over 32,000 employees, compared with slightly less than 30,000 employees at the beginning of the year.

Over 7,000 employees have left the Company to enter military forces of the United States. The replacing of these employees and the many other thousands who left our service because of dislocations due to war has constituted a major managerial problem over the past several years. This problem is in its most difficult stage at present.

RENEGOTIATION OF GOVERNMENT CONTRACTS

On completion of renegotiation of the Company's 1943 Government sales, no refund was necessary. The results obtained on Government sales in the year 1944 indicate that no renegotiation adjustments are likely; however, any contingencies in this respect are fully provided for in the Reserve for Contingencies.

RECONSTRUCTION OF WORN ARMY SERVICE SHOES

During the year the conservation program originally undertaken by the Army for the reconstruction of worn Army service shoes for their own purposes was expanded. Shoes unsuitable for rebuilding for Army purposes are now utilized by the Treasury Department of the Government in connection with lend-lease and foreign relief requirements. Produced under specifications requiring a minimum of essential materials, these leather-upper shoes with durable rubber composition soles provide desirable footwear for relief and rehabilitation purposes at low cost.

More than 8,000,000 pairs of rebuilt shoes have now been produced, with a saving of over 20,000,000 feet of heavy upper leather, an essential war material which is in very short supply.

GOVERNMENT PRICE CONTROL

Under present OPA policies, shoe manufacturers producing rationed type leather shoes, who are not operating at a loss, have been required to absorb virtually all of the considerable increases in cost of production which they have experienced during the last year. These increases in cost fall into two categories: first, those resulting from Government-approved increases in rates of wages and in prices of materials; second, those resulting from wartime conditions affecting employment and material procurement.

The Government, through the War Labor Board, has approved increases in wage rates, resulting in substantially higher labor costs, none of which can be compensated for in the prices of shoes frozen as of March 1942 by the General Maximum Price Regulation.

With the single exception of increases in the prices of non-marking rubber soles and heels, shoe manufacturers have not been permitted any increases in the prices of shoes to offset OPA-approved increases in the prices of materials charged by suppliers.

DELAWARE CORPORATION FINANCIAL REPORT

The accompanying report sets forth the position of the International Shoe Company (Delaware) exclusive of subsidiary corporations. The consolidated reports previously published included in recent years three subsidiaries, only one of which was of any consequence. The latter was liquidated on November 30, 1943, all assets being transferred to the Delaware Corporation. The remaining two subsidiary corporations which were formerly consolidated are negligible in size, and the investment in such corporations is now included in "Advances to and Investment in Subsidiary and Associated Companies." For all practical purposes the amounts shown throughout this financial report are on a basis comparable with similar amounts in the consolidated reports previously published.

CONCLUSION

The Quality of our Product is a Golden Text in the principles that control the Company's operations. Adherence to that principle through good years and bad has won the confidence of our customers who show their appreciation in expressions of good-will and loyalty. There could be no more encouraging and sustaining factor in our relations with those whom we serve.

With faith in our organization we fearlessly face the problems and uncertainties of 1945.

For the Board of Directors

Frank C. Rand
Chairman of the Board.

Byron A. Gray
President.

INTERNATIONAL

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As of Nov

ASSETS

Current Assets:		
Cash in banks and on hand		$ 13,055,036
United States Government securities, including tax notes $14,378,236	$ 20,380,048	
Less—Amount of tax notes applied against Federal tax liability, as per contra	8,750,000	11,630,048
Accounts receivable:		
Customers, less reserve for cash discounts and doubtful accounts	18,865,567	
Traveling advances to salesmen and sundry accounts	80,069	18,945,636
Inventories:		
At cost (determined on the "last-in, first-out" method):		
Finished shoes	3,484,507	
Shoes in process	2,271,107	
Hides and leather	10,790,390	
At lower of cost or market:		
Miscellaneous raw materials, merchandise and supplies on hand and in process	11,843,411	28,389,415
		72,020,135
Refunds of Federal taxes resulting from replacement, under Section 22(d) (6) of the Internal Revenue Code, of inventories maintained on "last-in, first-out" basis		601,780
Company's Own Common Stock—9,400 shares at net cost (at quoted market prices $376,000)		243,134
Advances to ($278,600) and Investment in Subsidiary and Associated Companies (less reserve)		464,405
Investment in Stocks of other Companies, Etc. (less reserve)		202,745
Post-War Refund of Federal Excess Profits Tax (estimated)		1,645,000
Physical Properties at tanneries, shoe factories, supply departments, and sales branches (based on appraisal as of April 30, 1925, plus subsequent additions at cost):		
Land and water rights	2,032,265	
Buildings and structures	21,625,307	
Machinery and equipment	19,367,261	
Lasts, patterns, and dies	1	
	43,024,834	
Less—Reserve for depreciation	27,634,195	15,390,639
Deferred Charges—insurance premiums, taxes, and sundry		375,345
		$ 90,943,183

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mber 30, 1944

LIABILITIES

Current Liabilities:			
Accounts payable for merchandise, expenses, and payrolls		$	5,951,122
Due to subsidiary company			71,977
Employees income tax withheld from payroll			402,496
Officers, stockholders, and employees balances			157,673
Accrued employees vacations			1,151,867
Employees partial payments for war bonds			293,069
Reserve for Federal taxes on income	$	8,750,000	
Less—United States Government tax notes applied, as per contra		8,750,000	—
			8,028,204
Reserves:			
For contingencies		1,000,000	
For excess cost of replacing inventories maintained on the "last-in, first-out" basis, less income taxes applicable thereto		370,000	
For insurance		806,622	2,176,622
Capital Stock:			
Common Stock—authorized 4,000,000 shares without nominal or par value, whereof issued and outstanding—3,350,000 shares		50,250,000	
Earned Surplus		30,488,357	
(Of the earned surplus, $243,134 used for the purchase of company's own common stock, as per contra)			80,738,357
			$ 90,943,183

INTERNATIONAL SHOE COMPANY

STATEMENT OF PROFIT AND LOSS

For the year ended November 30, 1944

Net sales of shoes and other manufactured merchandise	$ 156,642,087
Other income	251,698
	$ 156,893,785
Cost of shoes and merchandise sold, after charging operating expenses, maintenance of physical properties, selling, administrative, and warehouse expenses, and credit losses, less discount on purchases	142,517,295
Depreciation of physical properties	1,081,514
Other charges	75,141
Provision for Federal taxes on income, including excess profits taxes of $4,997,471, less post-war refund of $608,453 and estimated refunds of $601,780 resulting from excess cost of replacing inventories maintained on "last-in, first-out" basis	7,250,710
	150,924,660
NET PROFIT FOR YEAR	$ 5,969,125

STATEMENT OF CAPITAL STOCK AND SURPLUS

Common stock and surplus at November 30, 1943:		
Common stock (outstanding 3,350,000 shares)		$ 50,250,000
arned surplus		30,532,312
		80,782,312
Net Profit for the year		5,969,125
		86,751,437
Dividends:		
Common stock—$1.80 per share	$ 6,030,000	
Less—Dividends on company's own common stock	16,920	6,013,080
Common stock and surplus at November 30, 1944		80,738,357
Divided as follows:		
Common stock (outstanding 3,350,000 shares)	50,250,000	
Earned surplus	30,488,357	$ 80,738,357

PEAT, MARWICK, MITCHELL & CO.

ACCOUNTANTS AND AUDITORS

St. Louis, Missouri, December 30, 1944.

ACCOUNTANTS' REPORT

TO THE BOARD OF DIRECTORS,
INTERNATIONAL SHOE COMPANY,
St. Louis, Missouri.

We have examined the Balance Sheet of the International Shoe Company, a Delaware Corporation, as of November 30, 1944 and the statements of Profit and Loss and Surplus for the fiscal year then ended, have reviewed the system of internal control and the accounting procedures of the Company, and, without making a detailed audit of the transactions, have examined or tested accounting records of the Company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. It was not practicable to confirm receivables from United States Government departments, as to which we have satisfied ourselves by means of other auditing procedures.

Under the customary terms of the rental and royalty agreements covering machinery leased by the Company, it is liable to the lessor for deferred license fees which are payable when such machinery is returned to the lessor, together with all return freight and repair charges. It is the consistent accounting procedure of the Company to charge as operating expenses all current rentals and royalties.

The Company has made shipments under contracts with the United States Government, which contracts are subject to renegotiation under the provisions of Section 403 of the Sixth Supplemental National Defense Appropriation Act as amended. Renegotiation proceedings for the previous fiscal year have been concluded and an agreement entered into with the United States Government to the effect that no excessive profits were realized from such contracts during that year. Similar proceedings have not been begun for the current year; however, the reserve for contingencies is considered ample in the event refund should be claimed by the Government.

In our opinion, the accompanying Balance Sheet and related statements of Profit and Loss and Surplus present fairly the position of the International Shoe Company at November 30, 1944 and the result of the operations for the fiscal year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

OFFICERS

Frank C. Rand	Chairman of the Board
James T. Pettus	Vice-Chairman of the Board
Byron A. Gray	President
Andrew W. Johnson	Vice-President and Treasurer
Paul B. Jamison	Vice-President
Oliver F. Peters	Vice-President
H. Edgar Jenkins	Vice-President
Arthur B. Fletcher	Vice-President
Dickson S. Stauffer	Vice-President
William N. Sitton	Assistant Treasurer
Robert O. Monnig	Comptroller and Asst. Sec'y
Carl E. Brueckmann	Secretary

DIRECTORS

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Samuel Bown
Carl E. Brueckmann
Clarence H. Fielder
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Byron A. Gray
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Robert O. Monnig
William H. Moulton
Oliver F. Peters
James T. Pettus
Edgar E. Rand
Frank C. Rand
William N. Sitton
Dickson S. Stauffer

TRANSFER AGENTS

Manufacturers Trust Co., New York, N. Y.
Mississippi Valley Trust Co., St. Louis, Mo.

REGISTRARS

Guaranty Trust Co., New York, N. Y.
St. Louis Union Trust Co., St. Louis, Mo.

SALES BRANCHES

St. Louis

Roberts, Johnson & Rand
Peters
Friedman-Shelby
Continental Shoemakers
Pennant Shoe Co.
Jefferson Shoe Co.

St. Louis

Vitality Shoe Co.
Queen Quality Shoe Co.
Dorothy Dodd Shoe Co.
Winthrop Shoe Co.
Conformal Footwear Co.

Manchester, N. H.

Sundial Shoe Co.
Great Northern Shoe Co.
Interstate Shoe Co.

LOCATION OF SHOE FACTORIES AND SUPPLY PLANTS

Missouri

Bland
Cape Girardeau
De Soto
Fulton
Hannibal
Hermann
Higginsville
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville
Poplar Bluff
St. Charles
St. Clair
St. Louis
Sikeston
Sullivan
Sweet Springs
Washington
Windsor

Illinois

Anna
Belleville
Chester
Evansville
Flora
Jerseyville
Mt. Vernon
Olney
Quincy
Springfield
Steeleville

New Hampshire

Claremont
Manchester
Nashua
Newport

Kentucky

Paducah

Arkansas

Malvern

TANNERIES

Illinois

South Wood River

Missouri

St. Louis

New Hampshire

Manchester
Merrimack

North Carolina

Morganton
North Wilkesboro
(Extract Plant)

Pennsylvania

Philadelphia

West Virginia

Marlinton